STATE OF CALIFORNIA — DEPARTMENT OF FINANCE

MAJOR REGULATIONS STANDARDIZED REGULATORY IMPACT ASSESSMENT SUMMARY

DF-131 (NEW 11/13)

STANDARDIZED REGULATORY IMPACT ASSESSMENT SUMMARY

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1. Statement of the need for the proposed major regulation.

The regulations provide the public with clear standards and eligibility requirements to qualify for federal tax subsidies through the Exchange. They also set out the standards and requirements for the qualified health plan issuers regarding enrollment of qualified individuals in the qualified health plans and termination of coverage for qualified individuals through the Exchange. In addition, the regulations establish procedures for appeal of eligibility determinations and redeterminations so as to provide the public with an opportunity to request and receive a fair hearing.

2. The categories of individuals and business enterprises who will be impacted by the proposed major regulation and the amount of the economic impact on each such category.

The regulations only directly impact individuals who enroll for coverage through the Exchange. The regulations themselves do not impose any direct financial obligations on health insurance carriers or other businesses. Health insurance carriers that participate in the Exchange will have access to previously uninsured participants and associated premium revenue streams. Providers of healthcare goods and services will see increased revenue from the expansion of the number of individuals with health coverage.

3. Description of all costs and all benefits due to the proposed regulatory change (calculated on an annual basis from estimated date of filing with the Secretary of State through 12 months after the estimated date the proposed major regulation will be fully implemented as estimated by the agency).

Enrollees who were previously uninsured now have better and timelier access to healthcare. Enrollees who were previously insured and now receive a federal subsidy will spend less on health insurance, which allows them to spend more on non-health insurance goods and services. The spending shift is equal to the subsidies received. Spending by enrollees who were previously insured but did not receive a federal subsidy will be unchanged.

Spending on health insurance increased by $1.5 billion, which was equal to the amount of premiums paid by enrollees who were not previously insured. As modeled, total employment increased 77,000 in 2016 and an increase of about 103,900 is expected in 2020. The cumulative total over the five years is an increase of about 466,000 jobs. Private investment in California increased $1,304 billion in 2016 and is expected to increase $2,124 billion in 2020. The cumulative total over the five years is an increase of $9,380 billion.

The direct and indirect impacts of the changes in the affected economic sectors also led to changes in personal income: an increase of $4,735 billion in 2016 and an expected increase of $8,751 billion in 2020. The cumulative total over the five years is an increase of $34,642 billion.

Increased access to affordable health insurance in California had a positive impact on Gross State Product of $6,321 billion in 2016 and an expected increase of $8,921 billion in 2020. The cumulative total over the five years is an increase of $39,093 billion.

4. Description of the 12-month period in which the agency estimates the economic impact of the proposed major regulation will exceed $50 million.

These regulations became effective on an emergency basis in October 2013 when the Exchange began its first open enrollment. The first policies sold were effective for calendar year 2014 and were estimated to to have an economic impact that exceeded $50 million.

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5. Description of the agency's baseline:

Covered California utilized the REMI PI+ Model and Department of Finance data for the macroeconomic baseline. The baseline for the analysis is the pattern of individual insurance coverage of individual enrollees prior to 2016, which was derived from information provided during the eligibility determination and enrollment process for 2016 coverage.

6. For each alternative that the agency considered (including those provided by the public or another governmental agency), please describe:
   a. All costs and all benefits of the alternative
   b. The reason for rejecting alternative

State law created the California Health Benefit Exchange and the Health Benefit Exchange Board consistent with the federal Affordable Care Act (ACA). It also expressly requires the Exchange to adopt all of the requirements of the federal ACA and the requirements contained in federal guidance and regulations. With these mandates to adhere to federal law and regulations, the Exchange had no ability implement alternative approaches in general, and had only limited opportunities to consider alternative approaches to specific provisions within the regulations.

Alternative 1: Do not expand definition of Other Qualifying Life Event to include "Victims of domestic abuse and spousal abandonment"
The Exchange had the option and chose to include victims of domestic abuse and abandonment in the definition of Other Qualifying Life Event for enrolling during special enrollment, which entitled from 600 to 1,200 more individuals to enroll than if it had not. Compared to the baseline estimate, from 2016 through 2020, estimated employment gains would be reduced by 274,000 jobs, private investment gains by $5.4 billion, income gains by $19 billion, and state GDP gains by $23 billion. Alternative 1 was rejected because it would have led to less enrollment and reduced economic benefits for California.

Alternative 2: Adopt Minimum Grace Period for Incomplete Applications
The regulations allow applicants 90 calendar days from the date they were notified that their application was incomplete to provide the missing information. The regulations could have allowed as little as 10 calendar days. Limiting the grace period to 10 days would have reduced enrollment by 24,600 in 2014 will no effective cost savings. Compared to the baseline estimate, from 2016 through 2020, estimated employment gains would be reduced by 273,000 jobs, private investment gains by $5.4 billion, income gains by $18.7 billion, and state GDP gains by $23 billion. Alternative 2 was rejected because it would have led to less enrollment and reduced economic benefits for California.

7. A description of the methods by which the agency sought public input. (Please include documentation of that public outreach).

The Exchange met with the Department of Health Care Services and stakeholder groups. The regulations were discussed and approved in publicly held, duly noticed meetings of the California Health Exchange Board where interested members of the public were given the opportunity to offer suggestions and comments. In conjunction with these meetings, the regulations were posted on the Exchange's web site.

8. A description of the economic impact method and approach (including the underlying assumptions the agency used and the rationale and basis for those assumptions).

The REMI model of the California economy was used to assess economic impacts of the proposed regulations based on assumed changes to consumer and healthcare spending beginning in 2014 as indicated by premiums paid, additional out-of-pocket healthcare spending, and federal subsidies paid. Multiple sectors are directly impacted: pharmaceuticals, health care, physician services, dental services, paramedical services, hospitals, nursing homes, health insurance, and state government.

The overall economic impact of these regulations was determined by the nature of the persons who enroll for insurance coverage through the Exchange, which consists of those that are eligible for federal subsidies and those that are not and among these, those that previously had health insurance and those that didn't. The direct economic impact of this enrollment is reflected in the actuarial value and premiums of the policies sold to these groups and the payment of federal subsidies.

During 2016 during which enrollees paid $6.5 billion for health insurance premiums, $5.8 billion of which was paid by those who received federal subsidizes. Of the latter amount, $4.2 billion was offset by APTC, with the remaining $1.6 billion was paid directly by subsidized enrollees. In addition, $724 million was paid as Cost Sharing Reductions (CSR) to reduce out-of-pocket expenses paid by subsidized enrollees for expenses such as copayments and deductibles.

Spending on goods and services not related to health insurance and healthcare in 2016 increased by $2,687 million. Enrollees who were previously uninsured reduced their spending by the amount spent on the unsubsidized portion of their premiums and the additional out-of-pocket healthcare spending in 2016—$914 million. Enrollees who previously had health insurance could increase spending not related to health insurance and healthcare by the amount of subsidies received and cost sharing reductions paid—$3,773 million.

Spending on health insurance increased by $1.5 billion, which was equal to the amount of premiums paid by enrollees who were not previously insured. In accordance with the ACA, 80 percent of those premiums, or $1,217 million, was spent on healthcare goods and services. The remaining premium revenues could be used to pay for administration, marketing, and profits, which includes fees paid to marketplaces. After paying PMPMs to the Exchange, Net Insurance spending increased $85 million. An additional $548 million was spent on healthcare goods and services in the form of additional out-of-pocket healthcare spending by those who were not previously insured. Thus overall spending on healthcare goods and services in 2016 increased $1,764 million.

based on the assumptions that (1) total enrollment through the Exchange remains stable at approximately 1.3 million from 2016 to 2020 , (2) that premiums increase 6.7 percent per year on average over the same period and (3) that the ratios of spending between these sectors remains constant.

Agency Signature	Date
	1/10/2018

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